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Financial Transparency at Stake: Unraveling the Determinants of Audit Delay

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Abstract

The timely dissemination of financial information stands as a cornerstone of transparency and efficiency in modern capital markets. Audit delay, broadly defined as the interval between the financial year-end and the date of issuance of the auditor's report, represents a critical metric of reporting timeliness. The duration of this delay is directly correlated with the time auditors spend on fieldwork, implying that lengthier audit engagements result in extended reporting lags. Consequently, undue delays can significantly diminish the utility of such information for decision-making purposes. This research aims to meticulously re-examine the influence of company size, profitability, solvency, and audit opinion on audit delay within the Indonesian manufacturing sector for the period spanning 2020 to 2024. Using a quantitative method with a secondary approach, the sample was selected using a purposive sampling method, and the data was processed using Eviews and SPSS for multiple linear regression analysis. The results indicate that company size, profitability (ROA), and solvency (DER) have a significant partial effect on audit delay, while audit opinion has no significant partial effect on audit delay. The research model passed the classical assumption test, meeting the assumption of normality and showing no signs of heteroscedasticity, multicollinearity, or autocorrelation. The adjusted R-squared value is 0.237, or 23.7%, indicating that 23.7% of the effect of audit delay can be explained by the variables of company size, solvency, profitability, and auditor opinion, while 76.3% can be explained by other causal factors not included in this study.

Keywords: *Company Size, Profitability, Solvency, Audit Opinion, Audit Delay*

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1. Introduction

The timely dissemination of financial information stands as a cornerstone of transparency and efficiency in modern capital markets. In an increasingly interconnected global economy, where investment decisions are often predicated on the prompt and accurate availability of financial data, any impediment to this flow, such as audit delay, can have far-reaching implications (Muna & Lisiantara, 2021). Financial statements, serving as the primary conduit for companies to communicate their financial health and performance, are indispensable tools for stakeholders ranging from investors and creditors to regulatory bodies and management itself (OJK, 2016). The burgeoning business landscape in Indonesia, marked by a substantial and growing number of listed entities on the Indonesia Stock Exchange (IDX), underscores the paramount importance of robust and timely financial reporting practices.

Regulatory frameworks globally, and specifically in Indonesia, explicitly mandate the timely submission of these critical reports. For instance, the Financial Services Authority (OJK) Regulation No. 26/POJK.04/2016 concerning Annual Reports of Issuers or Public Companies, specifically Article 7, stipulates that issuers are obligated to submit their annual reports to the OJK no later than the end of the fourth month after the fiscal year concludes (OJK, 2016). Non-compliance with these stipulated deadlines can trigger a series of administrative sanctions, ranging from written warnings and monetary penalties to the severe consequence of trading suspension or even delisting from the stock exchange, as exemplified by the warnings issued by the IDX for delayed reports. Such delays not only invite regulatory scrutiny but also inevitably foster negative market reactions, erode investor confidence, and can adversely impact share prices, thereby undermining the integrity and efficiency of the capital market (Jensen & Meckling, 1976). Audit delay, broadly defined as the interval between the financial year-end and the date of issuance of the auditor's report, represents a critical metric of reporting timeliness (Ashton et al., 1987). The duration of this delay is directly correlated with the time auditors spend on fieldwork, implying that lengthier audit engagements result in extended reporting lags. The inherent value and relevance of financial information are inextricably linked to its timeliness; consequently, undue delays can significantly diminish the utility of such information for decision-making purposes (Watts & Zimmerman, 1986).

The literature suggests a variety of internal factors contributing to audit delay. Sulfiani et al. (2022) highlighted company size, profitability, solvency, and company age as salient determinants. Larger corporations, often characterized by more sophisticated internal control systems, might theoretically facilitate a more streamlined and expedited audit process (DeAngelo, 1981). Conversely, higher levels of solvency, particularly when measured by a substantial proportion of debt relative to equity, can prolong the audit duration due to the increased complexity and risk associated with debt structures, necessitating more extensive auditor scrutiny (Simunic, 1980). Furthermore, a company's profitability is posited to influence audit timeliness; highly profitable firms are generally incentivized to release their financial results promptly, as "good news" is typically communicated without delay to garner positive market attention and avoid misinterpretations, whereas less favorable performance might lead to strategic delays (Kothari et al., 2009). The auditor's own reputation and efficiency, including the size of the Public Accounting Firm (KAP), can also play a role, with larger KAPs often having more resources to conduct audits effectively (Francis & Wilson, 1988).

Despite the extant research, inconsistencies persist in the empirical findings regarding the specific impact of these factors on audit delay (Durand, 2019). This academic debate, coupled with the critical importance of timely financial reporting in the Indonesian context, provides the primary impetus for the current study. Specifically, this research aims to meticulously re-examine the influence of company size, profitability, solvency, and audit opinion on audit delay within the Indonesian manufacturing sector for the period spanning 2020 to 2024. The manufacturing sector is particularly relevant given its substantial representation and contribution to the Indonesian economy, with 180 listed manufacturing companies as of 2024 (IDX, 2024). By focusing on this specific sector and a recent time frame, this study seeks to provide contemporary and context-specific insights that can help resolve some of the aforementioned inconsistencies in the literature.

2. Literature Review

Agency Theory

The agency problem was initially explored by (Ross, 1973), and then further explored in detail through the agency theory of (Jensen & Meckling, 1976), who proposed that an agency relationship is a contract in which one or more individuals (principals) employ another individual (agents) to perform a number of services and delegate decision-making authority to the agent. Eisenhardt (1989) also proposed a relationship that reflects the basic agency structure between a principal and an agent who engage in cooperative behavior but have different goals and differing attitudes toward risk. According to (Homayoun & Homayoun, 2015), agency theory explains the conflict between management as agents and owners as principals. Owners typically request accountability reports from management. However, management typically creates a favorable-looking accountability report to present to owners to enhance their performance. To reduce fraud committed by management and increase the credibility of financial reports, auditors are required to examine the company's financial reports and provide an opinion on them.

Signaling Theory

Signalling Theory, developed by (Ross, 1973), states that company executives with better information about their company will be encouraged to convey this information to potential investors, thereby increasing the company's stock price. The positive aspect of signaling theory is that companies that provide good information will differentiate themselves from companies that do not have "good news" by informing the market about their condition. Signals about good future performance provided by companies with poor past financial performance will not be trusted by the market.

Melewar (2008) states that Signaling Theory shows that companies will send signals through their actions and communications. These companies adopt these signals to reveal hidden attributes to stakeholders. According to (Rahmatika, 2021), a signal is an action taken by company management, where management has more complete and accurate information about the company's internal affairs and future prospects than investors. Management is required to provide signals regarding the company's condition to shareholders by providing annual financial reports. Generally, the market will respond to a company's financial report as a signal of good or bad news. If management signals good news, it can increase the stock price. Conversely, if management signals bad news, it can result in a decline in the company's stock price.

Audit Delay

Audit delay is the time between the end of the accounting period and the date the audit report is issued (Simanjuntak et al., 2023). The length of this audit delay is directly proportional to the length of fieldwork completed by the auditor; therefore, the longer the fieldwork, the longer the audit delay (Bunga et al., 2023). Financial reports must meet four characteristics, which are the distinctive features that make financial statement information useful to its users. These four characteristics are understandable, relevant, reliable, and comparable. Obtaining relevant information poses several challenges, one of which is the timeliness of financial report presentation. This is in accordance with PSAK No. 1 Paragraph 43, which states that if there is an undue delay in reporting, the resulting information will lose its relevance. Publicly listed companies are required to submit annual financial reports accompanied by an auditor's opinion to the Financial Services Authority (OJK) through Decree of the Chairman of the Capital Market and Financial Institutions Supervisory Agency Number KEP-431/BL/2012 concerning Submission of Annual Reports of Issuers or Public Companies in Appendix Number 1 letter (a), "Issuers or18 Public Companies whose registration statements have become effective are required to submit annual reports to Bapepam-LK no later than 4 (four) months after the end of the fiscal year, as amended by Financial Services Authority Regulation Number 29/POJK.04/2016 concerning Annual Reports of Issuers or Public Companies."

3. Research Methods

This study uses a quantitative method with a secondary approach, the sample was selected using a purposive sampling method. The criteria used in determining the sample are the complete availability of the required data and involve financial statements audited by independent auditors from 2020-2024. Manufacturing companies have published annual financial statements consecutively (IDX Industrials Sector, using the financial reporting period from January 1 to December 31, presenting data and information used to analyze the factors affecting audit delay for the period 2020-2024. The financial statements of the sample companies are not presented in foreign currency. This study analyzes the effect of company size, profitability, solvency, and audit opinion on audit delay using data from audited financial statements. The data is processed using Eviews. The Data Analysis Method is Multiple Linear Regression Analysis with several tests, namely Descriptive Statistics analysis, Normality test, Autocorrection test, Heteroscedasticity test, Multicollinearity test.

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This study was conducted to examine the influence of Company Size, Public Accounting Firm Size, Auditor Change, Audit Opinion on Audit Delay in the manufacturing sector listed on the Stock Exchange. Indonesia which can be described as follows

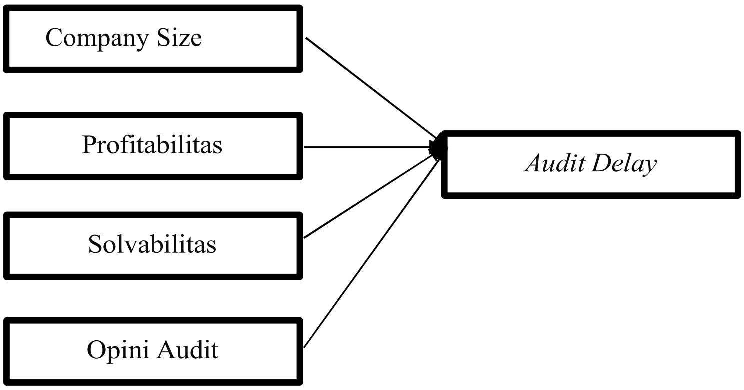

Figure 1. Conceptual Framework of the Research

4. Results

To determine the relationship between the audit committee, solvency, profitability, auditor quality and auditor opinion on audit delay , multiple linear regression analysis was used which was formulated as follows:

$$\mathbf{AD \quad = \alpha + \beta 1SZ + \beta 2SOL + \beta 3PROF + \beta 4SOLVA + \beta 5OA + e}$$

AD : AuditDelay
A : Constant
β1-5 : Independent variable regression coefficient
SZ : Company Size
Profit : Profitability
Solva : Solvabilitas
OA : Auditor's Opinion
E : Error

The results of the calculation were based on computer calculations with SPSS software version 24 under windows operation. Based on table 4.4, the multiple linear regression equation is obtained as follows Tabel 1.

Table 1. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients	
	B	Standard Error
Constant	175,532	29,984
Size	-3,395	1,080
ROA	-,757	,249
DER	,223	,095
Audit Opinion	21,079	14,360

Source: SPSS version 24

$$Y = 175{,}532 - 3{,}395X1 - 0{,}757X2 + 0{,}223X3 + 21{,}079X4 + e$$

The analysis of each variable has its independent influence on the bound variable will be explained as follows:

From the above equation, it can be explained that the constant of 175,532 states that if the variables of company size, profitability, solvency, and auditor opinion do not change, then *the audit delay* is 175,532 days or rounded up by 175 days.

Table 1. t-Test Results

Model	T	Sig
(Constant)	6,925	0,000
Size	0,155	0,877
ROA	1,877	0,064
DER	0,713	0,478
Audit Opinion	2,913	0,005

Based on the test results in Table 2, it is clear that company size has a partial significant effect on audit delay. This finding is supported by the research of Lase et al. (2024), which found that company size influences audit delay. Furthermore, this research is also supported by research by Sartika et al. (2024), which also found that company size influences audit delay. However, this finding is inconsistent with the research of (Tsani et al., 2022), which found that company size has no effect on audit delay.

The results of this study indicate that the solvency variable, as measured by the DER, has a partial significant effect on audit delay. This finding is supported by research by (Fauziyyah, 2022; Sulfiani et al., 2022) which found that solvency influences audit delay. However, this is inconsistent with the research findings of (Gustini, 2020; Sayidah, 2019), which stated that solvency had no effect on audit delay. High solvency results in longer audit completion times. The profitability variable, measured by ROA, partially had a significant effect on audit delay. This aligns with the research findings of (Apriyana & Rahmawati, 2017; Aziz & Indrabudiman, 2023; Cahyati & Anita, 2019), which stated that profitability had no effect on audit delay. However, this contradicts the research findings of Putra and Ramantha (2015), which stated that profitability did influence audit delay. Companies with high profitability tend to publish financial reports promptly because it increases the company's value to stakeholders. The auditor's opinion variable, based on this research, partially did not have a significant effect on audit delay. This aligns with the research findings of Nurmalasari and Ratmona (2014) and Putra and Sukirman (2014), which stated that auditor's opinion had no effect on audit delay. However, this contradicts the research findings of Aryaningsih and Budiartha (2014) and Putra and Ramantha (2015), which stated that auditor opinions influence audit delay. Audit opinions do not influence audit delay, as this is part of the KAP's authority to issue statements.

Table 2. Results of Determination Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.513[a]	.263	.237	22,34705

Based on Table 2, the results of the coefficient of determination model analysis indicate that the R-squared value is 0.263, indicating that the relationship between the dependent and independent variables is strong, as it is greater than 0.05. The adjusted R-squared value is 0.237, or 23.7%. This indicates that 23.7% of the effect of audit delay can be explained by the variables of company size, solvency, profitability, and auditor opinion, while 76.3% can be explained by other causal factors not included in this study. It can be concluded that the R2 test results in the table above indicate that the multiple coefficient of determination is 0.263, or 26.3%. This indicates that the variables of company size (X1), profitability (X2), solvency (X3), and audit opinion (X4) can explain audit delay (Y) in companies, with the remaining 76.3% explained by other variables not included in this study. The standard error of the estimate is a measure of the amount of error the regression model makes in predicting the Y value. The regression results yield a value of 22.34705, indicating a significant error in predicting audit delay.

5. Conclusion and Suggestion

Based on the analysis, this research model passed the classical assumption test, meeting the assumption of normality and showing no signs of heteroscedasticity, multicollinearity, or autocorrelation. Several conclusions were drawn: company size has a significant partial effect on audit delay, profitability (ROA) has a significant partial effect on audit delay, solvency (DER) has a significant partial effect on audit delay, and audit opinion has no significant partial effect on audit delay.

The researchers recommend adding variables that may influence audit delay, extending the research period, and expanding the sample size of companies. Auditors are advised to plan their fieldwork carefully to ensure effective and efficient execution and timely financial reports. Companies are expected to provide auditors with flexibility in conducting fieldwork and providing the information they need during the audit process.

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